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Basic Technical Analysis for Daytrading (page 1)[Back to
MODULE 1](#)**● Main Points:**

- Most of us who daytrade for a living use both Level 2 and 1-minute tick charts that have a number of indicators we rely on. After awhile, these will become like "second nature" to you (much like the dashboard is while driving a car).
- You need to develop the skill to quickly respond to relevant technical indicators while avoiding too much complexity that detracts from your trading skill and speed.
- As you can see from my setup; I find that it's useful to have a level 2 window, a one-day interval chart and a 5-day chart all together for each of the 9 stocks I am watching at any given point in time.
- In this and other pages we will give you many handy tips for daytrading technical analysis not found in the books, but essential for success. The books generally aren't real-life or practical enough; we want to provide specific technical patterns and indicators that work for daytrading today's stocks.
- You need to experiment to develop a setup that works well for you; many traders like to just watch 1 to 3 level 2 screens at a time. If it works, use it! Experimentation is the key.

click for full 4-screen
snap:

**Basic Technical Analysis for Daytraders**

- Note: I will not waste your time with kindergarten TA you can get in any book; we will instead give you practical methods and ideas. The stuff they don't tell you.
- It is useful to keep an eye on **2 simultaneous charts for every stock you trade**: The First is what I call a "closeup" intraday chart, with a short time interval (1 to 5 minutes). The Second is a 5-day or 10-day chart to help you identify current support and resistance levels, and to see "where the stock is coming from" (the time interval for a multiday chart should be 13 minutes).
- Trading with only today's intraday chart is not enough, you need to

see at least the previous days' open/high/low/close and volume to understand buying/selling behavior for the current day. Especially useful for playing opening gaps.

The first TA decision you must make is:

How often should you set your intraday charts to sample data for?

Some traders like 3min/13min setups, others use 5/15 etc.. I like 1/13 myself.

- For those of us who scalp and trade in intervals of a few minutes to an hour or two, set your intraday chart data interval to a one minute close-line chart.
- For those who trade longer time intervals (many hours, overnight holds, swing traders), you may want to use 3-minute charts instead to filter out the minute-by-minute 'noise'.

For this intraday chart, should you use a close-line, bar or candlestick chart? I use a close-line 1 minute intraday chart and a 5-day candlestick or bar char. Here's what three intraday AMZN charts would look like with each of these displays:

Close line 1-min:

Candle 1-min:

Bar 1-min:



Which is easiest to read? I like the close-line myself, although you don't see the minute-by-minute range. With level 2, you don't need to see that on the chart, since you can "read the tape" and you know what action is going on at each price level. The close-line chart lets me see key support/resistance and trend data.

So, have you set up your 1-minute intraday charts for your 3-5 core daytrading stocks yet? Remember, you should have two charts for each stock. If you don't have a data feed, at least use a bigcharts.com 5- or 10-day chart in addition to the intraday 1-minute chart you use to trade from.

If (and only if) the stock is giving me uncertain signals and I can't see what's going to happen from the level 2 patterns, then I will use my "microscope" intraday TA momentum chart with a few more bells and whistles.

Most of us who are daytraders don't use bollinger bands and other TA that's designed for multi-week or multi-month investing. We are daytraders. We may use stochastics and oscillators, volume breakouts and tape patterns. That's all we need. Here's an example:

1-minute Close Line Chart with:

- 50 MA (red line main graph)
- Volume (of course)
- RSI (12)
- Slow stochastic (18)

I will not bore you with the details of "how to set up your indicators" other than these examples I'm providing; there are plenty of resources out there to help you with TA.

[See next page](#)

How to Use the Indicators: Typically, I rely on support and resistance levels plus patterns I've memorized to help me enter and exit trades. We'll look at patterns on the next page. Stochs are a daytrader's favorite, like MACD lines they cross, giving buy/sell signals. RSI for oversold/overbought conditions. Use with caution, market direction and tape flow in time and sales are most important.



Here's an example of a DCLK 5-day chart (minus one day for Thanksgiving; I'll change the chart next week). Notice that I like to use candlestick 13-minute charts for 5-day or 10-day charts. On the chart itself I like to include a 50MA (experiment, anywhere from 28- to 50- MA is decent) as a trend/support line. Notice that the red/green bars show buyers/sellers during each 13-minute interval. This is used for support/resistance spotting. Another nice feature from [eSignal](#) charts.



Intraday Support and Resistance Levels

- Hint: start with a 5-day chart to identify the past 5 trading days' support and resistance, also paying attention to volume and spotting larger patterns (cup and saucer, triangles, pennants, flags, breakouts from a trading range etc). Volume breakouts are great to trade, as are bottom bounces off support levels. Here's an example of a multiday "double bottom" XRX chart showing support at 28ish:

5-day XRX chart thru 11/26 showing

support at 28:



I drew the yellow line at 28, a support level for XRX. How to trade it? Buy it at around 28 to 28 1/4, using 27 15/16 as a stop.

If we're right, XRX should run up for a half point or more. If we're wrong, we're out with a very small loss.

It works. (having said that, now watch XRX plummet to 19 on Mon lol)

3-day COMS chart showing double top resistance:



Here's a multiday "double top", showing temporary resistance. Do not buy this stock until it breaks through the resistance level on decent volume.

Double and triple bottoms & tops make for easy plays; you can "trade the channel", surfing long and short between the boundaries, using close stops for protection. The double top indicates an "overbought" condition, where sellers will gain momentum.

Overbought, in a Trading Range, or Oversold?

Remember to always try and play overbought or oversold conditions (with volume and market directions as confirming indicators). The only time to play stock that's in a range is if you're playing market maker and scalping teenies (another very valid and common way to daytrade).

High-percentage trades are off the tops and bottoms. Look for double-digit

swings (eg down 11% on the day with no news) for high-potential trading opportunities. Here's a couple of examples:

Can you ID support/resistance for this Disney 6-month chart?

Can you say "oversold" for this 5-day Disney chart? Predictable top, time to short it:



Here's an example of an oversold HRL chart. Given all the good news that just came out the same day (and CNBC mention), it was an obvious buy at the close of the day:

Of course, I posted this in the "stock picks" page and bought at the bottom, selling on the opening gap up.



Since I don't normally play this stock, I just played a very conservative 200 shares. Still, \$250 on 200 shares of an overnight hold is an ok profit.

11/23/1999 15:51:58	Bought	200 HRL	40 1/2	\$-8,109.99
11/24/1999 09:47:45	Sold	200 HRL	41 7/8	\$8,364.73

What fund managers look for: why you should care as a daytrader. These guys have pre-entered buy and sell programs

based on the \$PREM, indexes and most importantly the **50- 100- and 200-day MA** (moving average) lines on stocks they play.

These give you ideal support and resistance levels...look them up on 6-month charts, then narrow in to 5-day and intraday charts, watching for blocks of at least 10K shares going off in time and sales for buy and sell signals.

QCOM 6-month chart: a thing of beauty.

Notice the stock never loses its 50/100/200 MA lines.

Other charts do. lol

Look for when a stock price tests, retests and bounces off any of these key three lines for institutional buy/sell signals.

Scope down to a 5- or 10-day chart to see the latest action (esp volume), then put on the watchlist for intraday trading. It's easy.



Intro to TA for Momentum Trading

- Momentum trading includes "jumping on whatever's hot", such as IPO's, morning gappers (either gainers or losers), and news plays. We'll look at reading stocks and advanced momentum oscillators in a later module.
- TA is primarily concerned with both momentum oscillators such as stochastics, which may be helpful, as well as the slope of the close line: the steeper the slope the faster the retracement will be. [See our next page for more examples and "how to's"...](#)
- **Here was what is in my opinion the "momentum play of the year".** I've never seen anything like it. If I'd just bought 1K shares at 28-30 I coulda woulda shoulda make 20 grand in under an hour. Of course, I didn't jump in (I rarely play stocks I don't know, or IPOs). **Triple Doh!** And, the chart was easy to play, gained 30 points over a slow steady hour of trading.

Gee Marge we
shoulda bought some
of this at the open.
Doh!



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